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**LEBANON-FEDAYEEN:** The Lebanese are cautiously optimistic that the army's forceful tactics and the broad popular support for President Franjiyah's tough stand place them in a strong position vis-a-vis the guerrillas. They view Syrian involvement thus far as limited, but are still concerned about Damascus' intentions.

The air strikes and artillery fire on 8 May appear to have had a sobering effect on the guerrillas. Beirut was relatively quiet yesterday, with only some exchanges of fire. There are still some fedayeen extremists, however, bent on precipitating a showdown between the army and the guerrillas. Several banks in the city proper were damaged by dynamite. Fedayeen-army joint committees have begun enforcing the cease-fire, but their effectiveness is not yet known.

There were several fire-fights in the eastern Argub near the Syrian border, but Lebanese air strikes and tank fire hurt the guerrillas and limited the fighting. Guerrilla losses since the conflict began are estimated at 200-300 dead, while the army lost 38.

25X1  army morale remains high and the troops are anxious to control the guerrillas completely. Public opinion, heretofore sympathetic with the guerrillas after the Israeli raids, has now become critical. Communal differences between the Christians and Muslims have not been a factor in the conflict. Parliamentary deputies and religious leaders representing the various sects issued statements of support yesterday for the government and for national unity.

The Lebanese view Damascus' action thus far as what might be expected in light of Syria's generally hostile attitude toward Lebanon and pressures from

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25X1      within the Syrian political power structure for support of the guerrillas. Since the fighting began, the Syrians have allowed an estimated 1,000-2,000 fedayeen to infiltrate into Lebanon, but have not committed Syrian regulars. [REDACTED]

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[REDACTED]

For their part, the Egyptians sent Sadat's personal emissary, Hasan Sabri al-Khuli, to Damascus yesterday to intervene on Lebanon's behalf. Cairo may fear that a Syrian move into Lebanon would trigger Israeli military action which, in turn, would put strong pressure on Egypt to assist its confederation partner. [REDACTED]

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YUGOSLAVIA: Tito will not attend the important Yugoslav party conference that begins today. The Yugoslav news agency announced yesterday that Tito will remain on vacation. The same article indicated that party leaders have already agreed to re-elect Stane Dolanc as secretary of the powerful party Executive Bureau.

These announcements appear intended to present Dolanc as the front-runner in the party succession sweepstakes. Tito has never missed a party conference before; his keynote addresses over the years have set the tone for the proceedings. In his absence, Dolanc will have the spotlight, delivering the major address. His position as the apparent heir to the 81-year-old Tito will be strengthened.

After this demonstration of confidence in Dolanc, Tito may well pass some of his party leadership duties to him as he is doing on the government side with Yugoslavia's collective presidency. It is unlikely, however, that Tito will resign the chairmanship of the party, a post he has held for 36 years. Dolanc apparently has been groomed by Tito since 1969, when he was plucked from an obscure post in Slovenia and suddenly elevated to the party Executive Bureau. He is much like Tito, a straight-talking and no-nonsense individual, who believes strongly in the federal system for Yugoslavia. Should he succeed Tito some day, Dolanc would be likely to continue Yugoslavia's "independent" posture, balanced between East and West and striving for leadership of the third world. [REDACTED]

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ARGENTINA: President Lanusse has declared he would use "force of arms" if necessary to guarantee the transfer of power to the Peronists on 25 May.

The President's warning came after a round of meetings of high-ranking officers to discuss the largely unproductive talks between the military junta and president-elect Campora last week. There is some sentiment for a military move to block Campora's accession because of his refusal to take a firm public stance against terrorism, but cooler heads have prevailed so far. The majority of senior officers agree that any move to overturn the elections would spark civil strife that the armed forces might not be able to handle.

Militant anti-Peronists in the army and navy have been unable to find an issue that would overcome the unwillingness of their fellow officers to test the Peronists' strength. The assassination of Admiral Quijada came close. It caused many top officers to waver in their determination to see the electoral process through to its conclusion and further attacks on the armed forces would play into the hands of the hard-line anti-Peronists and jeopardize the transfer of power. [REDACTED]

[REDACTED]

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INTERNATIONAL MONETARY DEVELOPMENTS: Tension has increased again on European money markets, as the dollar has come under new and significant pressure. The European joint float itself may soon be threatened as well.

The mark has been in demand over the last two days because traders anticipate new action by Bonn to control inflation. Other European currencies have appreciated at least partly in line with the mark, and the independently floating pound, largely reflecting attractive British interest rates, has reached its highest level since last June.

Both the mark and the guilder will probably go up yet more in coming weeks. Technical factors associated with Bonn's reserve requirements on German commercial banks will produce end-of-month mark purchases. Yesterday, Amsterdam announced the cancellation of its surcharge on non-resident deposits which was introduced in March 1973 and has been a major factor in the weakness of the guilder. A rapid appreciation by the mark or guilder would provide the first major test for the joint float.

After almost a month of relative stability, the free market price of gold rose to a record \$92.75 an ounce in London yesterday. The troubled currency markets, political tension in the Middle East, and reports of possible Soviet borrowing on the Euro-dollar market--which would reduce Moscow's need to sell gold--contributed to the rise. [REDACTED]

[REDACTED]

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EASTERN EUROPE: Foot-and-mouth disease is continuing to threaten the livestock industries of several East European countries.

Outbreaks first occurred last August in Romania, and were subsequently reported in Bulgaria, Yugoslavia, Hungary, Czechoslovakia, and the USSR. On 4 May, Czechoslovakia indefinitely halted private travel between it and Austria to prevent spreading the disease, a protective measure presumably taken against an outbreak among Austrian cattle. Hungarian officials admitted in March that the epidemic had caused a shortage of retail supplies of pork and had reduced hog herds.

Strict control and extensive vaccination programs to eradicate the disease in Czechoslovakia, Hungary, and Romania have been largely unsuccessful. In the past, these measures eliminated or isolated the disease within less than six months. An authoritative veterinary research institute has identified the virus sub-types in Eastern Europe as resistant to available vaccines, which may account for the continued outbreaks. Since agricultural work will soon be at a peak, it will become even more difficult in coming months to prevent the disease from spreading within national boundaries.

Unless brought under control, these East European countries will be forced to restrict not only tourist travel, but also their exports of livestock and livestock products. This could sharply reduce hard-currency earnings for Hungary and Romania. The epidemic may also cause longer run economic setbacks to livestock production plans, especially those for expanding beef and dairy cattle. [REDACTED]

[REDACTED]

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JAPAN - SAUDI ARABIA: Three large private Japanese oil companies are currently negotiating for one third of the estimated average of 400,000 barrels per day of crude oil that the Saudi Government will have available for sale during 1973-75. Saudi Arabia wants to give preference to US firms [REDACTED]

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[REDACTED] The Saudi Government, however, will probably be willing to make some deal with Japanese as well as West European firms. [REDACTED]

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